

# Ind AS 16: Property, Plant and Equipment Ind AS 38: Intangible Assets

WIRC of the ICAI | June 2015



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## Agenda



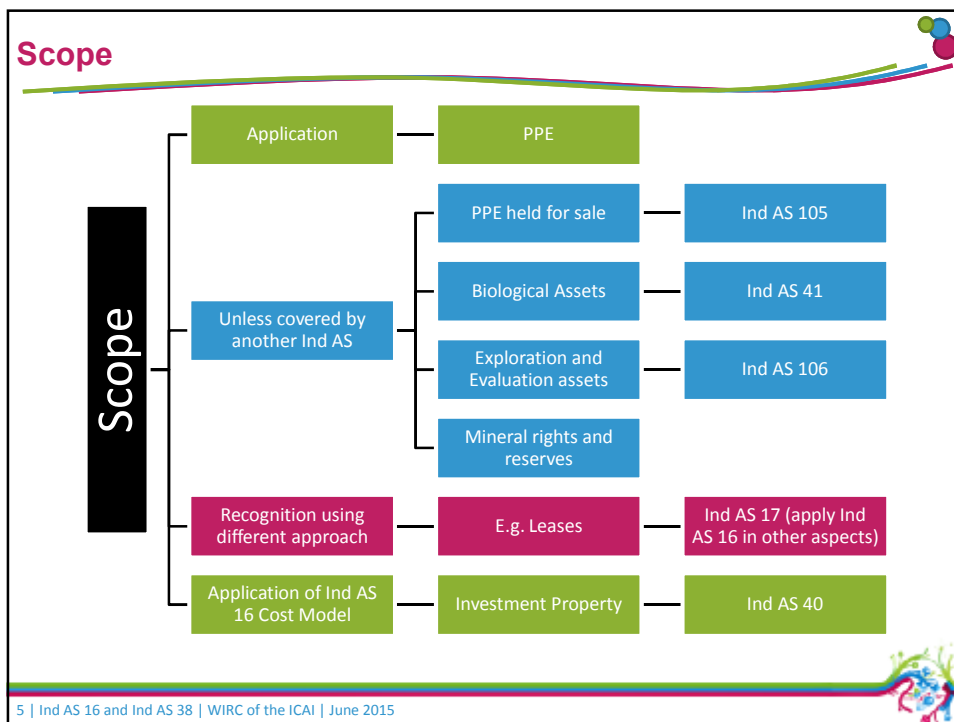
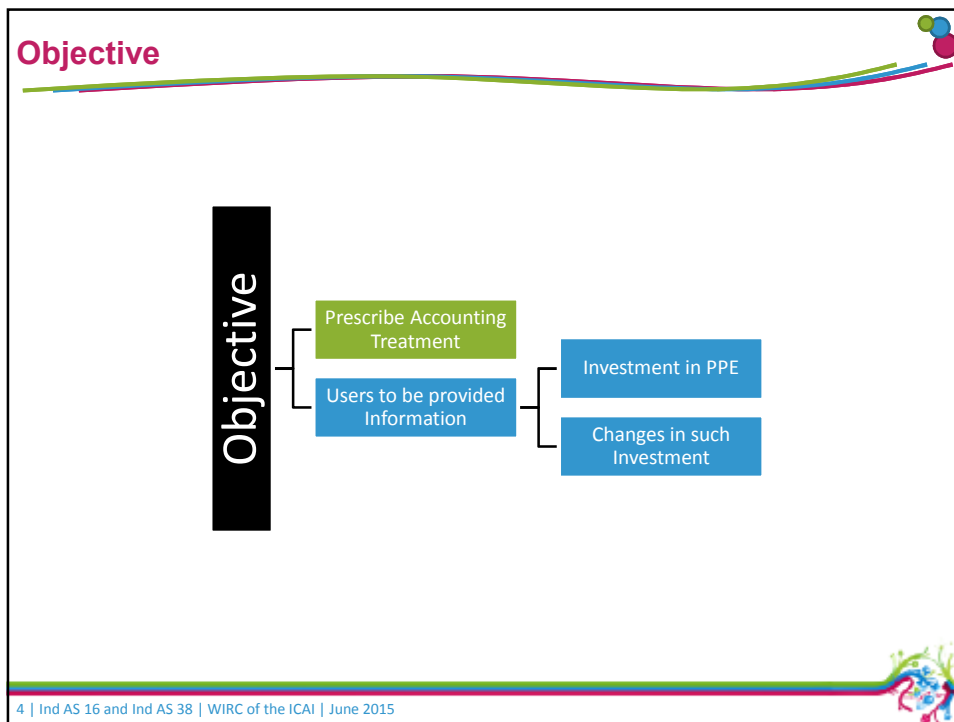
## Methodology

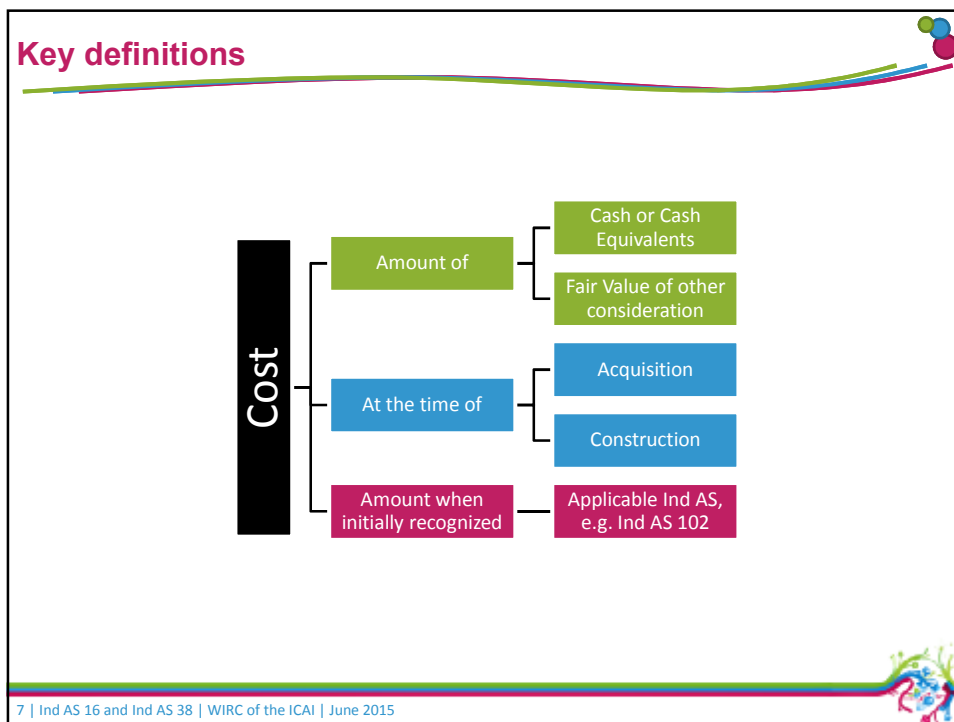
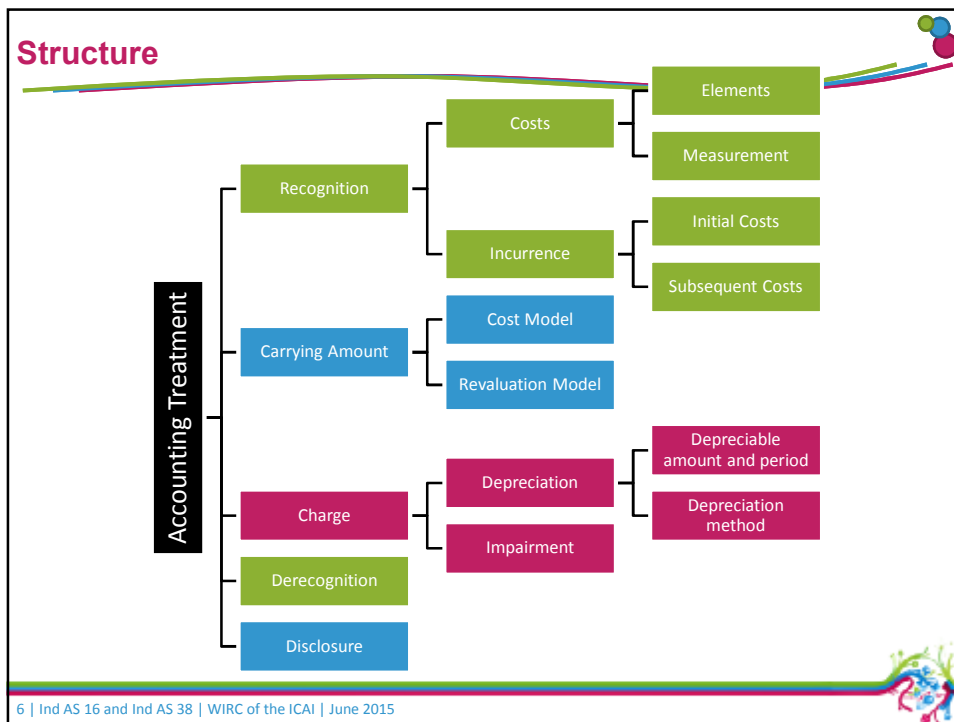
- Focus on key elements
- Objective
- Scope
- Key definitions
- Ind AS structure
- Component-wise
  - Details
  - Comparison with previous GAAP
- Practical Issues

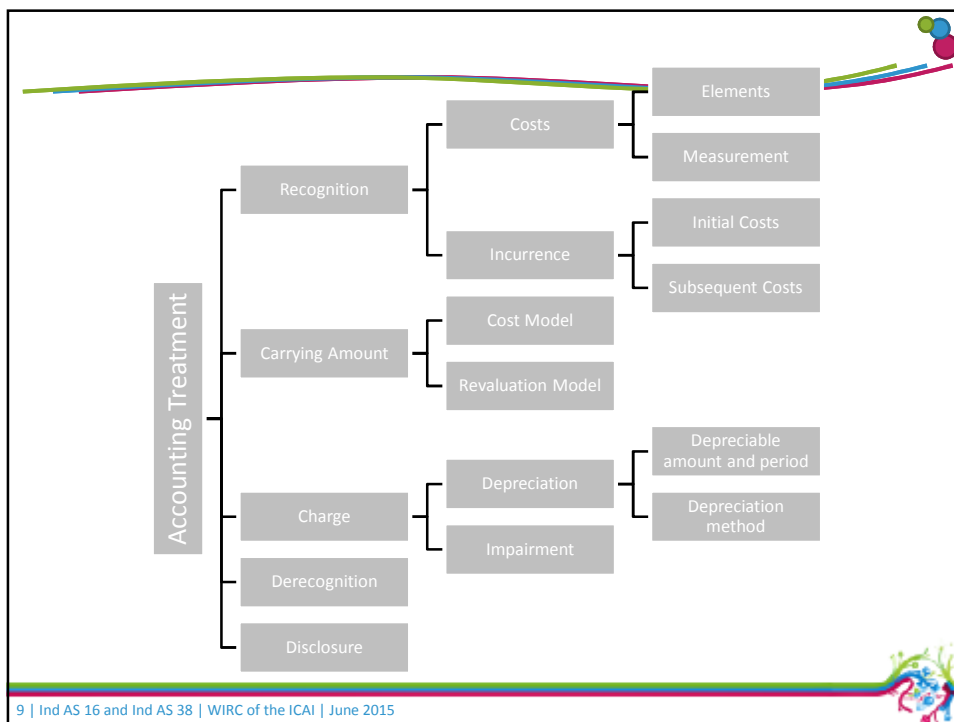
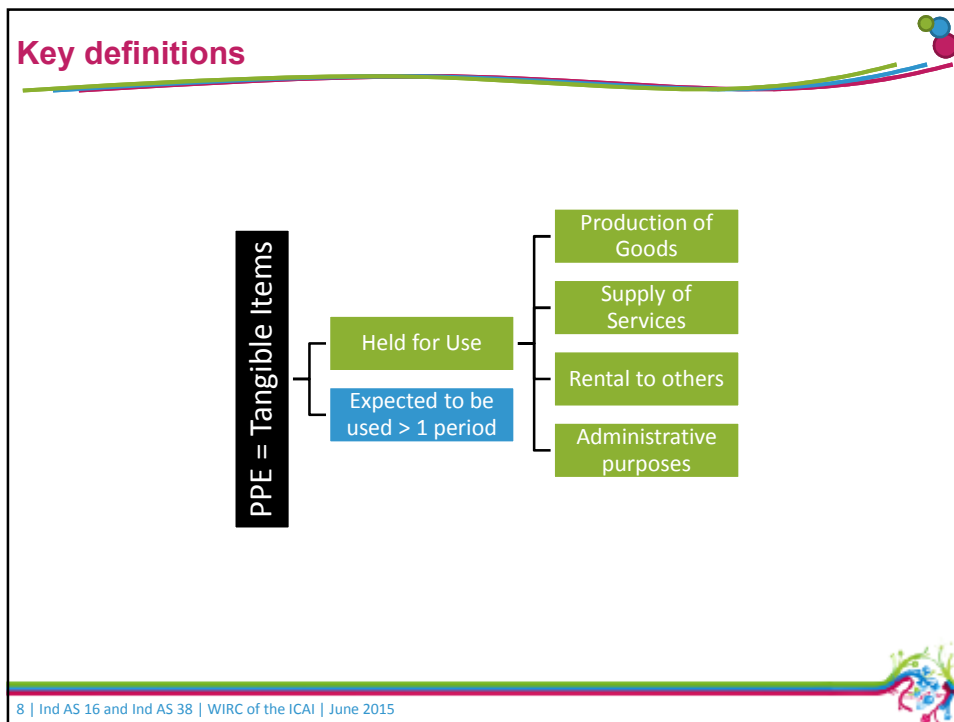
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## Ind AS 16: Property, Plant and Equipment









## Recognition

If and only if

- Future economic **benefits** are probable, AND
- Cost can be reliably **measured**
  - E.g. **major spare parts, stand-by equipment and servicing equipment**
  - **General spare parts** carried as inventory
- Unit of measure not prescribed

!

- AS 10 does not prescribe specific recognition criteria
- Component Accounting mandatory under Ind AS 16; recommended under AS 10; effectively mandated by Companies Act, 2013

Costs

- Elements
- Measurement

Incurrence

- Initial Costs
- Subsequent Costs

## Element of Cost

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- No specific guidance under AS 10 for inclusion of dismantling costs
- AS 29 prohibits discounting of such end-of-life costs

- **Purchase price** (including duties and non-refundable taxes, excluding trade discounts and rebates)
- Costs attributable to **acquisition**
  - Employees
  - Site preparation
  - Initial delivery and handling
  - Installation and assembly
  - Testing costs (net)
  - Professional fees

- Initial estimate of **dismantling and restoration** costs

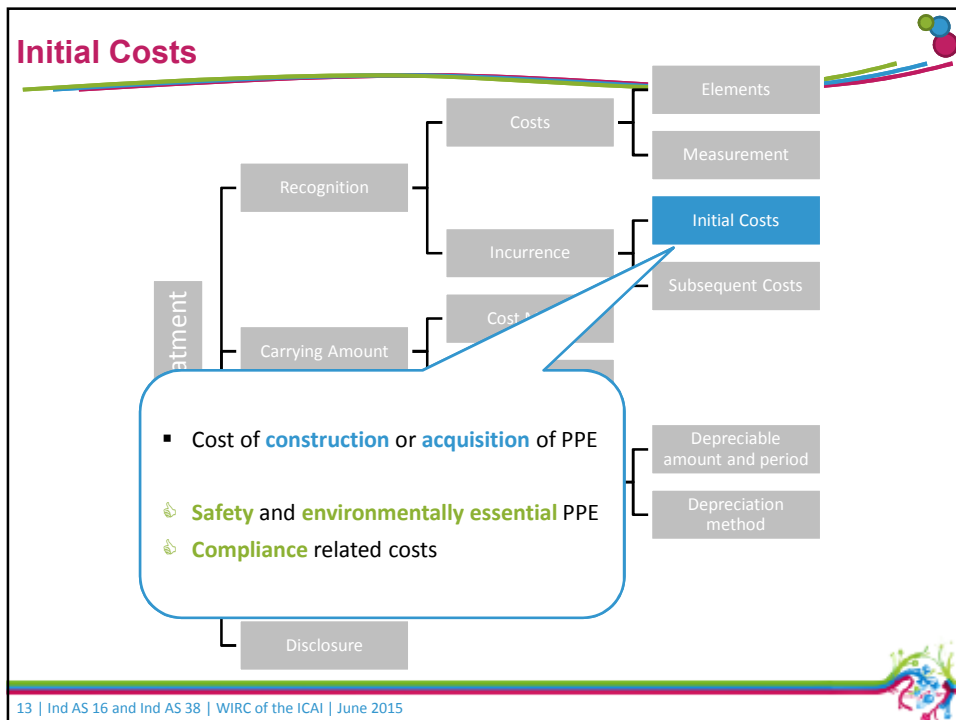
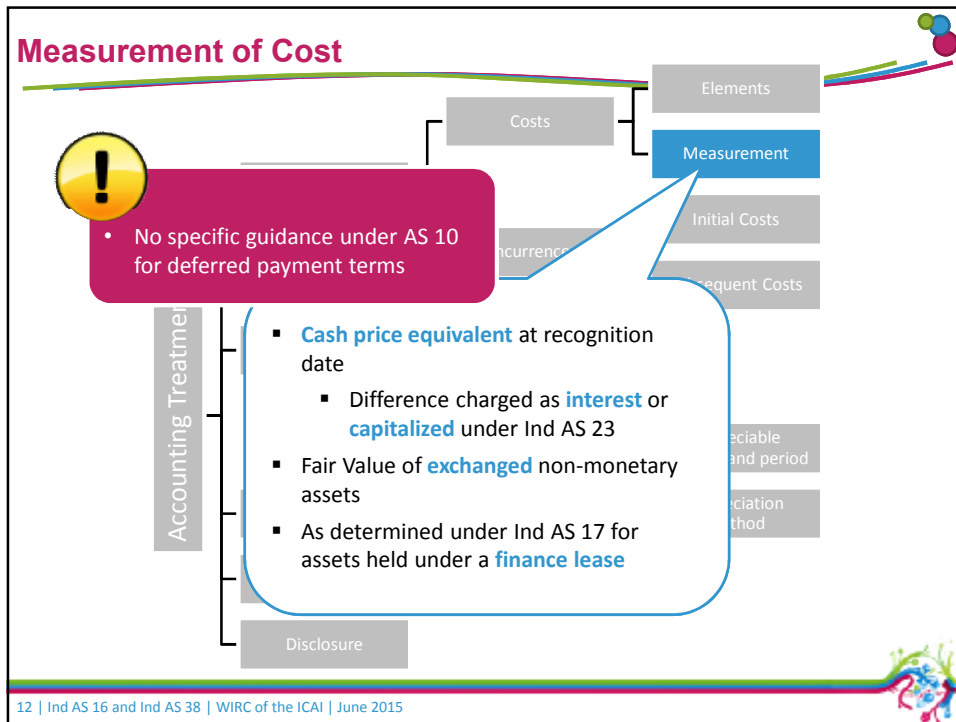
EXCLUSIONS:

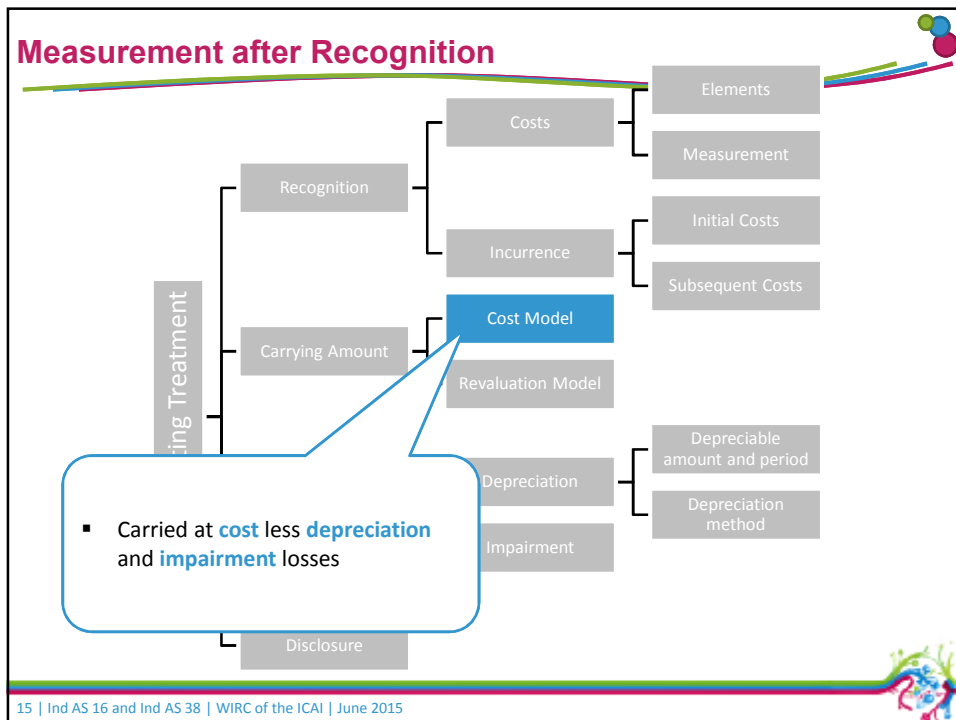
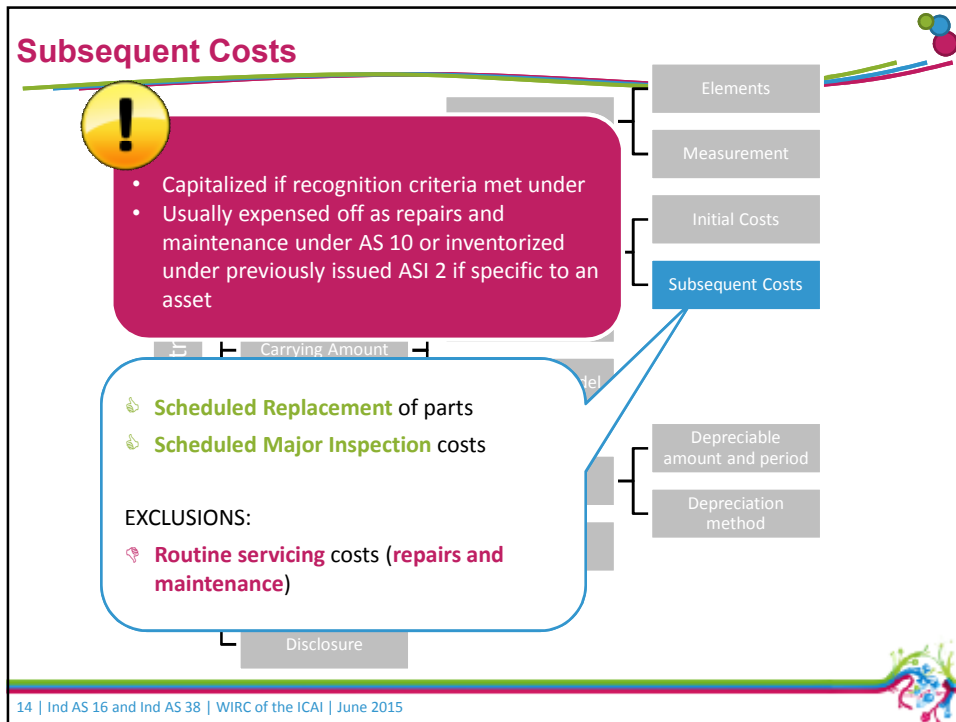
- Opening a **new facility**
- Introducing new products, e.g. **advertisement** and promotion
- New location or customer class, e.g. **training**
- **Administration** and general overheads
- Regular use or **redeployment**
- **Internal profits** on self constructed PPE

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### Measurement after Recognition

- Can be measured at **Fair Value** if reliably measurable
- To be carried at **revalued amount** less subsequent **accumulated depreciation**
- Sufficiently **regular** revaluations required, depending on asset type
- Entire class** to be revalued **simultaneously** or on a **rolling basis**
- Fair Value to be derived from **Market Value** or **Income / Depreciated Replacement Cost** approach

AS 10 permits 'systematic', not comprehensive, selection of PPE for revaluation

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### Treatment of Accumulated Depreciation on Revaluation

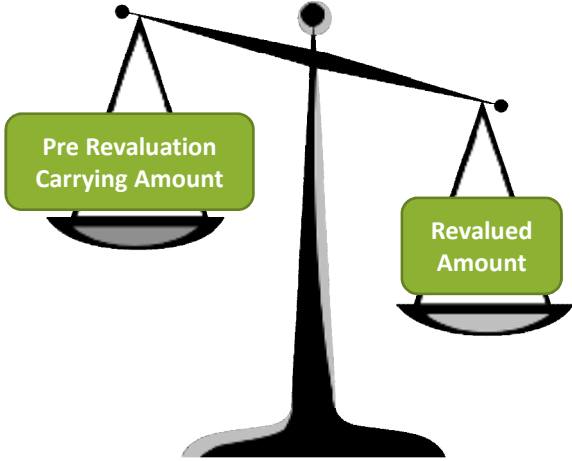
- Option 1: Proportionate Change**
  - Step 1: Proportionately restate both Gross Block and Accumulated Depreciation by the revaluation factor

	Cost	Reval	Step 1	Result
Gross Block	1,000 Dr		200 Dr	1,200 Dr
Accumulated Depreciation	400 Cr		80 Cr	480 Cr
Net Block	600 Dr	720 Dr		720 Dr
Revaluation Surplus			120 Cr	120 Cr
- Option 2: Eliminate Accumulated Depreciation and restate Net Block**
  - Step 1: Eliminated Accumulated Depreciation against Gross Block
  - Step 2: Restate to Revalued amount

	Cost	Reval	Step 1	Step 2	Result
Gross Block	1,000 Dr		400 Cr	120 Dr	720 Dr
Accumulated Depreciation	400 Cr		400 Dr		0 Dr
Net Block	600 Dr	720 Dr			720 Dr
Revaluation Surplus				120 Cr	120 Cr

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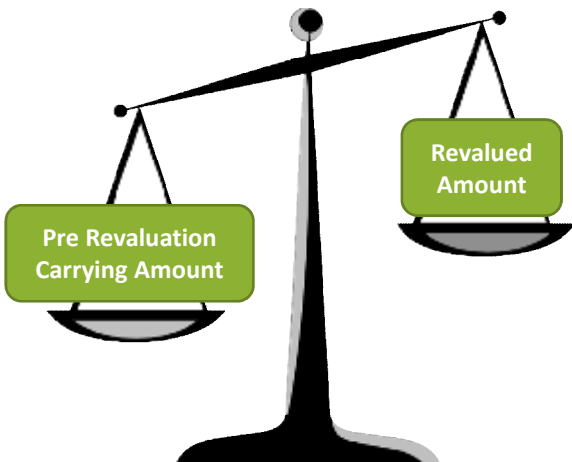
### Treatment of Increase in Carrying Amount on Revaluation



- Recognized in **Other Comprehensive Income**
- Accumulated in **Equity** as **Revaluation Surplus**
- ...but recognized in P&L to the extent of **reversal** of previous revaluation decrease of same asset

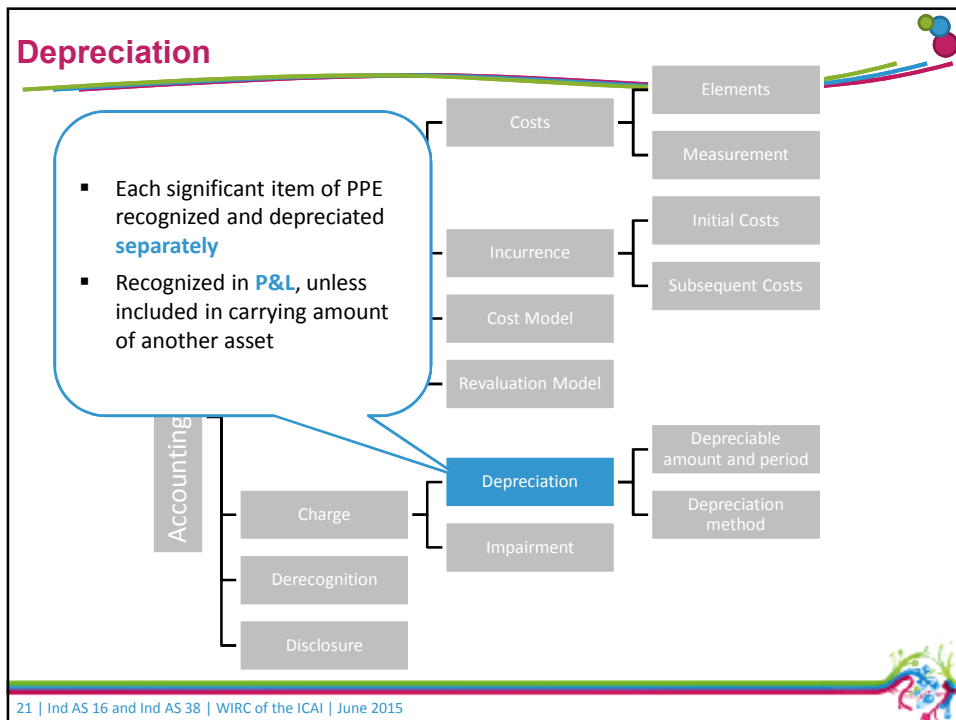
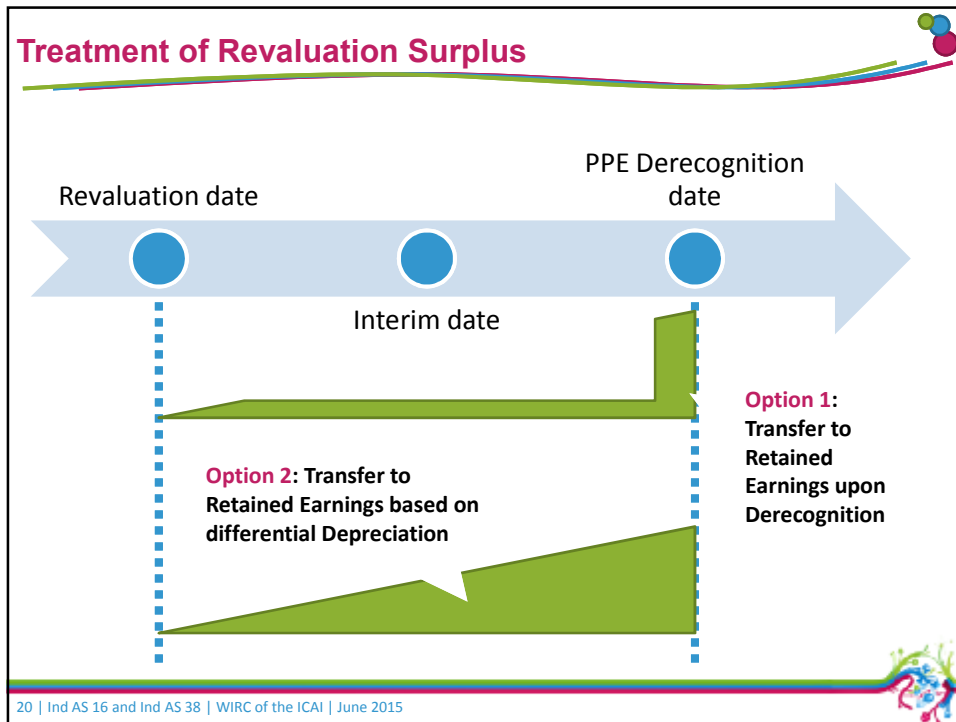
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### Treatment of Decrease in Carrying Amount on Revaluation



- Recognized in **P&L**
- ...but recognized in **Other Comprehensive Income** to the extent of **credit balance** in revaluation surplus of same asset, thus **reducing revaluation surplus** in Equity

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### Depreciable Amount and Period

- Allocated on a **systematic** basis over **estimated useful life**
- Depreciation =  $(\text{Cost or Revalued Amount} - \text{Residual Value}) \div \text{Useful Life}$
- Residual value and useful life to be **reviewed** annually, changes recognized as **change in accounting estimates** as per Ind AS 8
- Begins** when available for use
- Ceases** when held for sale under Ind AS 105 or derecognized, not when idle
- Land and buildings** are accounted for separately

AS 10 requires 'periodical', not annual, review of RV or useful life

Sch II, Companies Act 2013, fixes RV @ 5% and fixes indicative (not minimum) useful lives

Elements

Measurement

Derecognition

Disclosure

method

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### Depreciation Method

- SLM, WDV, Units of Production methods available as choices
- Depreciation method should **reflect consumption pattern** of future economic benefits
- To be applied **consistently**
- Should be **reviewed** annually, changes recognized as **change in accounting estimates** as per Ind AS 8

AS 6 recognizes any change in depreciation method as accounting policy change, to be applied retrospectively

Costs

Elements

Measurement

Initial Costs

Subsequent Costs

Charge

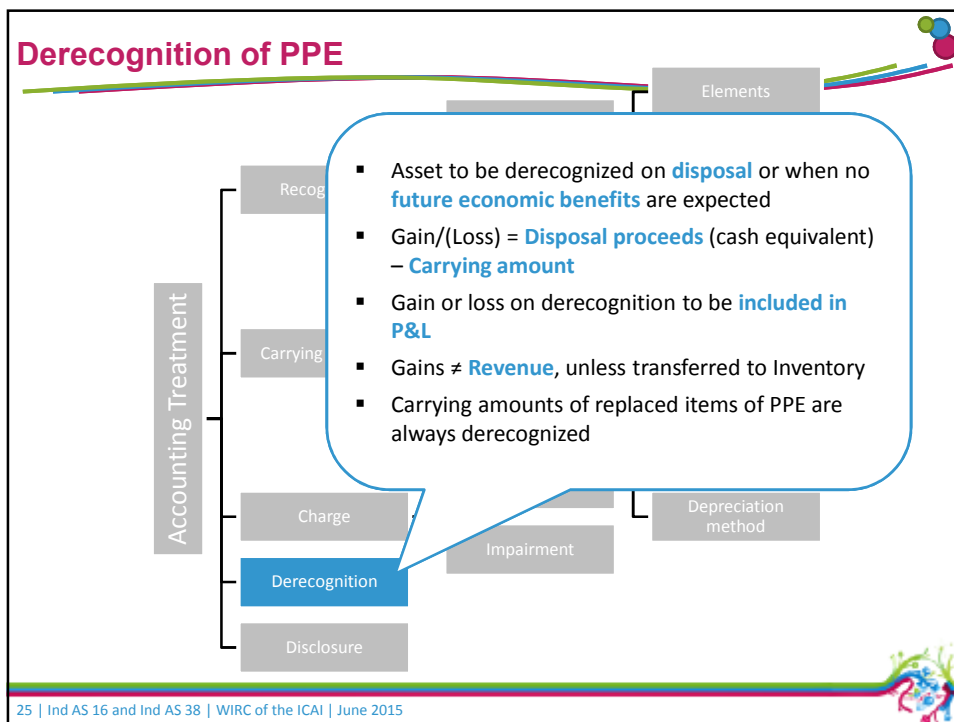
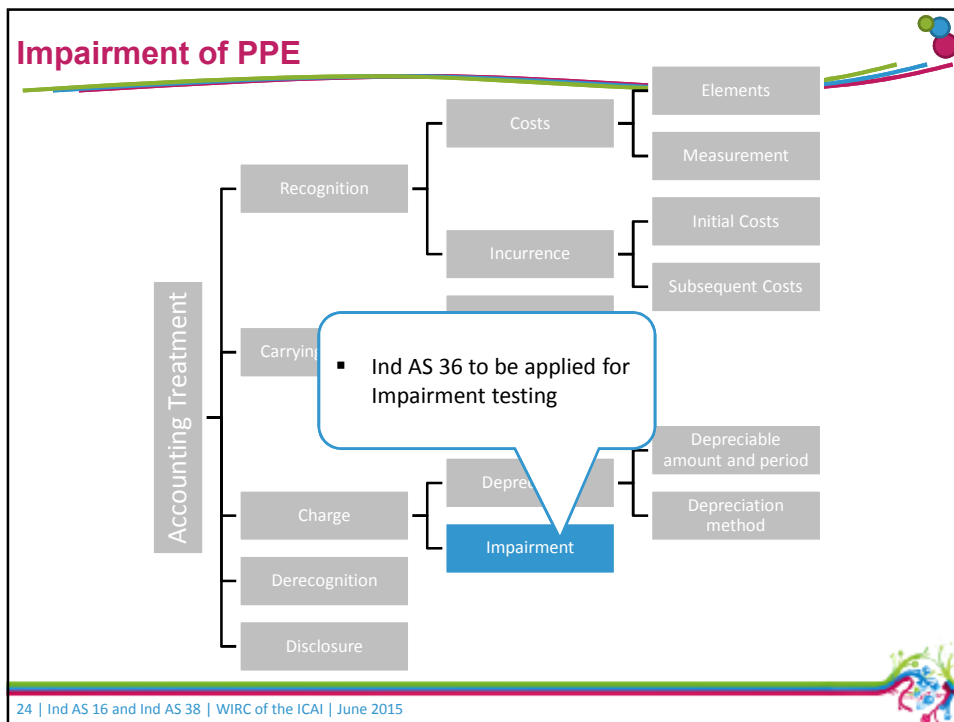
Derecognition

Disclosure

Impairment

method

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### Disclosure Requirements

Elements

- By **class** – land, building, machinery, vehicles, furniture and fixtures, office equipment
- **Base** for measuring gross block
- Depreciation **methods**
- **Useful lives**
- **Gross block, accumulated depreciation, net block at beginning and end**
- **Movements** and reconciliation
- **Restrictions** and lien
- Expenditure **capitalized** during construction
- Contractual purchase **commitments**
- Details of **revaluation** – effective date, valuer, methods, assumptions, basis of Fair Value, impact and Revaluation Surplus
- Details of **impairment** under Ind AS 36
- Idle / retired / still in use / Fair Value if significantly different from cost

Disclosure

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### Decommissioning and Restoration costs

Accounting for Changes

Cost model

Revaluation model

Adjusted amount depreciated over useful life

Adjusted in cost, excess over carrying amount to P&L

Decrease in liability

Increase in liability

Test carrying amount against Fair Value

Disclose change in Surplus as per Ind AS 1

Additions tested for impairment

OCI and Surplus

P&L to reverse previous deficit

Excess over cost model to P&L

P&L

OCI and Surplus to reverse previous surplus

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## Practical Issues

- **First time adoption**
  - Ind AS 101 requires retrospective restatement for PPE
    - Deemed cost recognition permitted on basis of fair value or carrying amount as per previous GAAP
    - Decommissioning liability may be estimated on date of transition to Ind AS, and applied accordingly
  - ERP-based challenges
    - Restatement of useful lives or RV
    - Revaluation of PPE

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## And now, are there any Questions?



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Take a break – complete the following sequence:

T T F F S S E ?

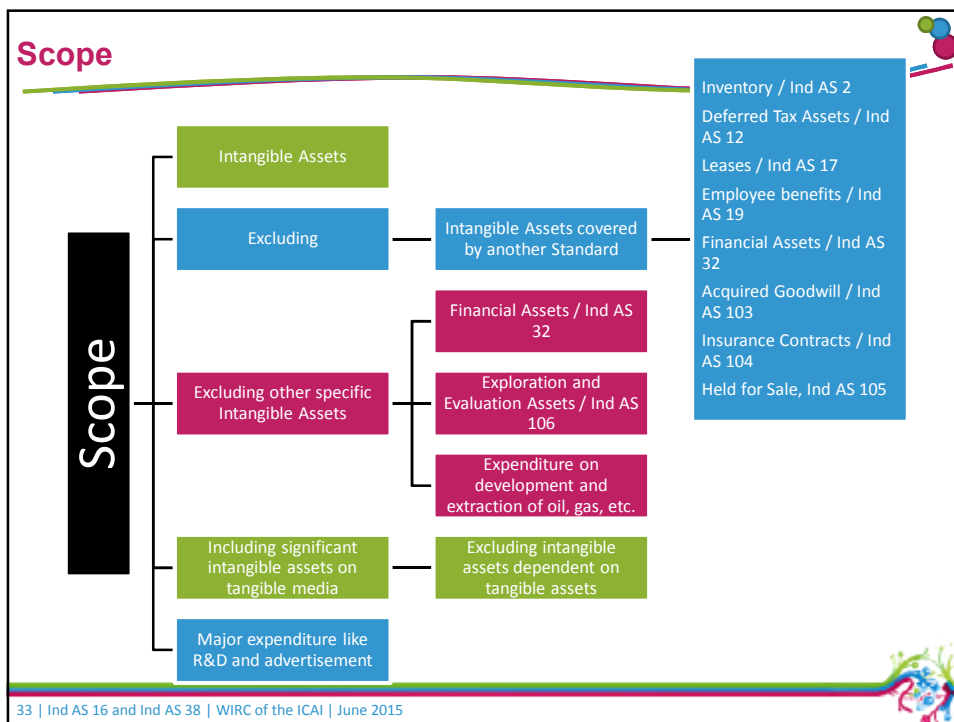
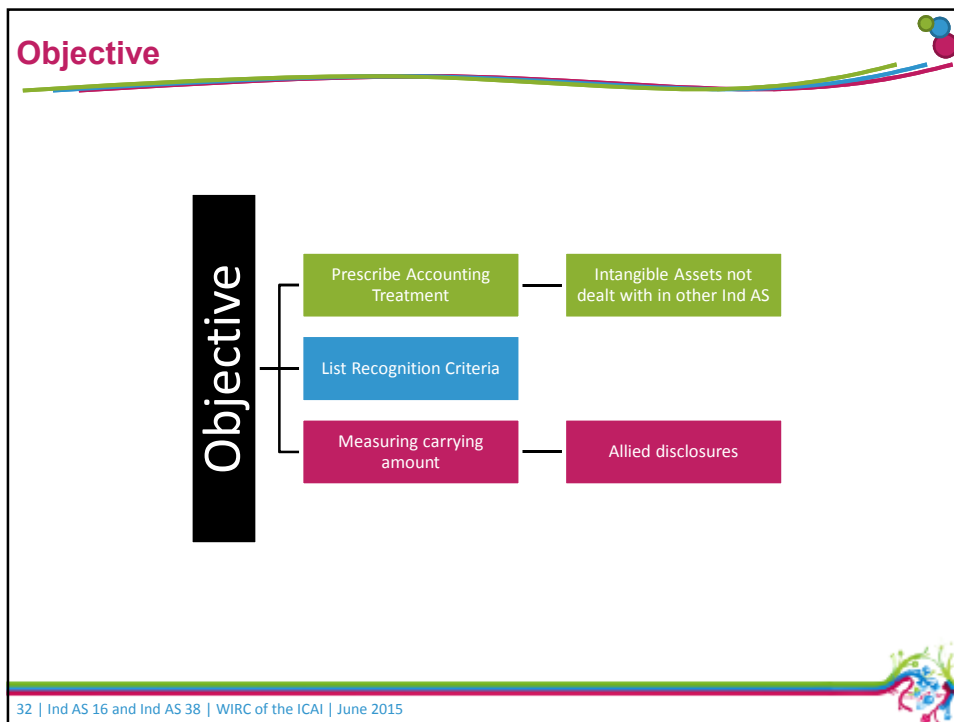


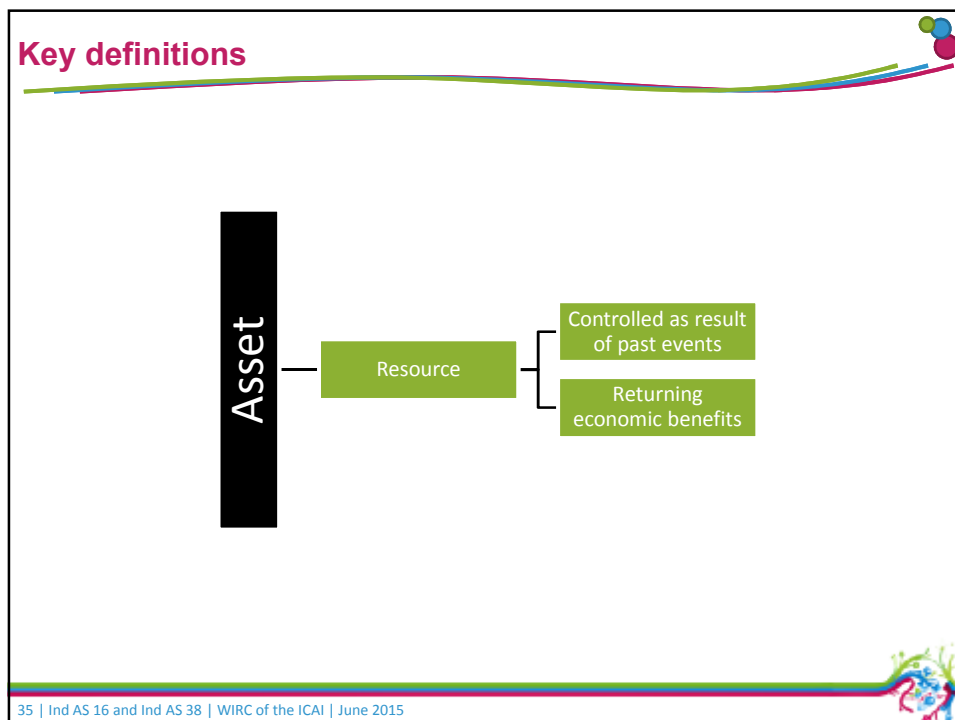
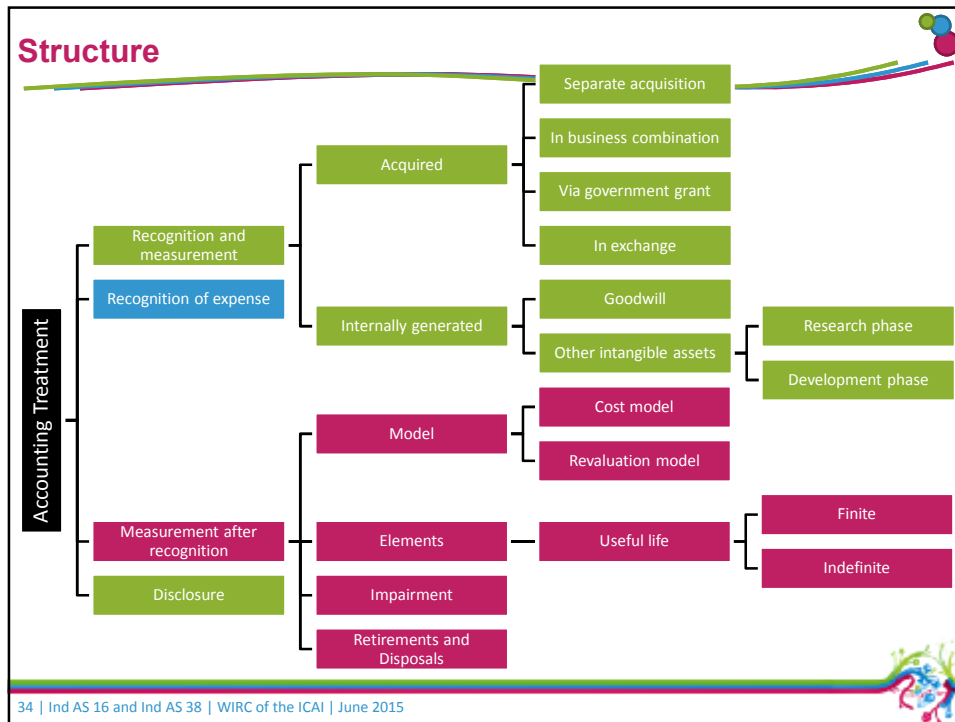
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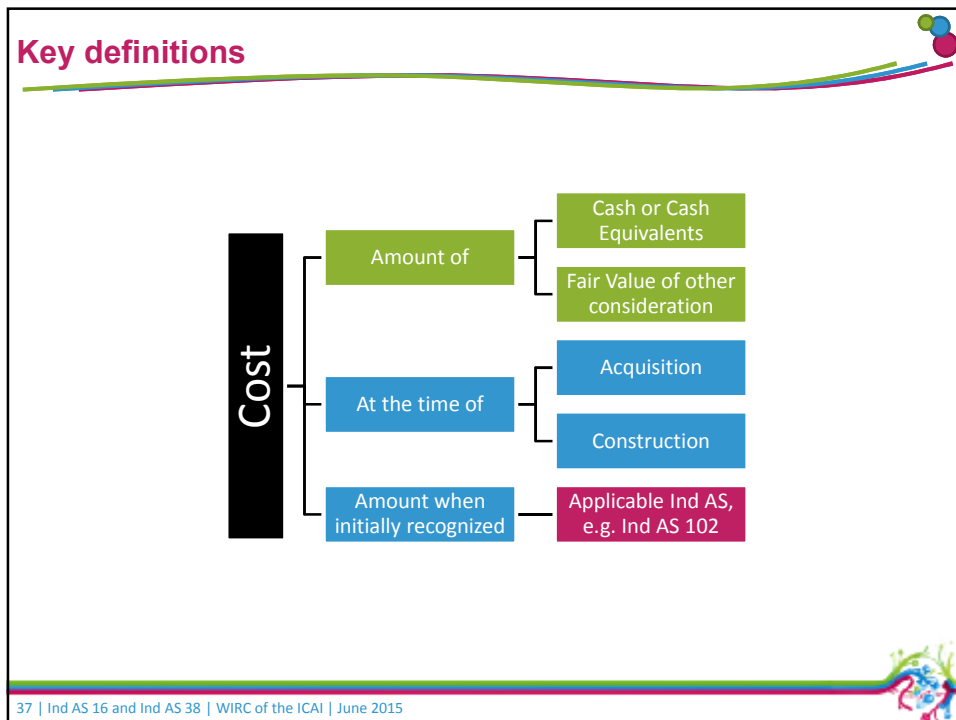
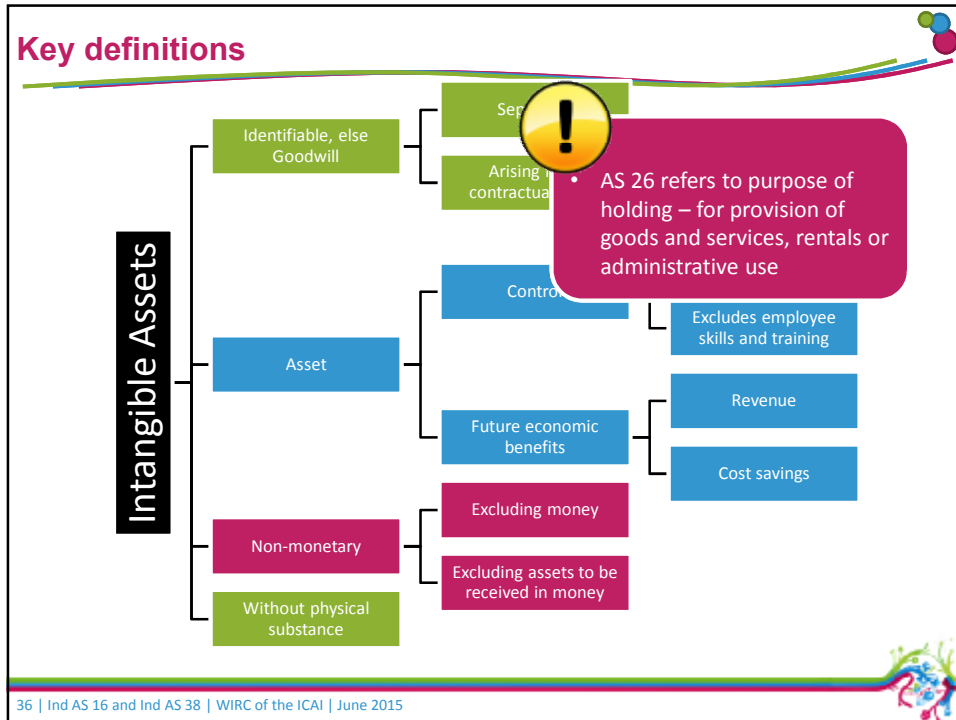
### Ind AS 38: Intangible Assets

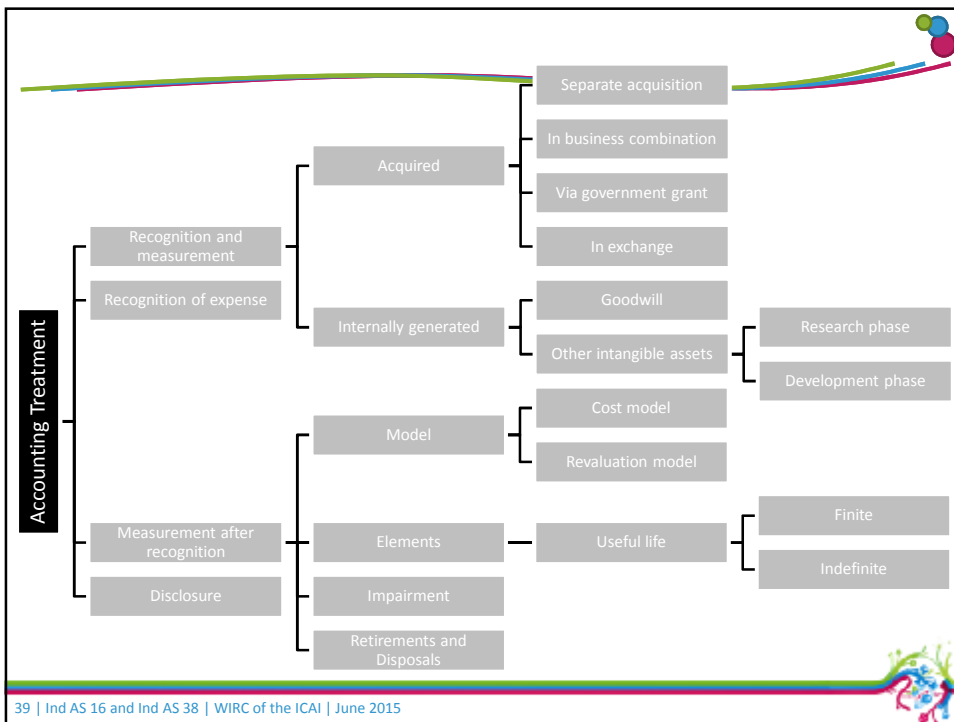
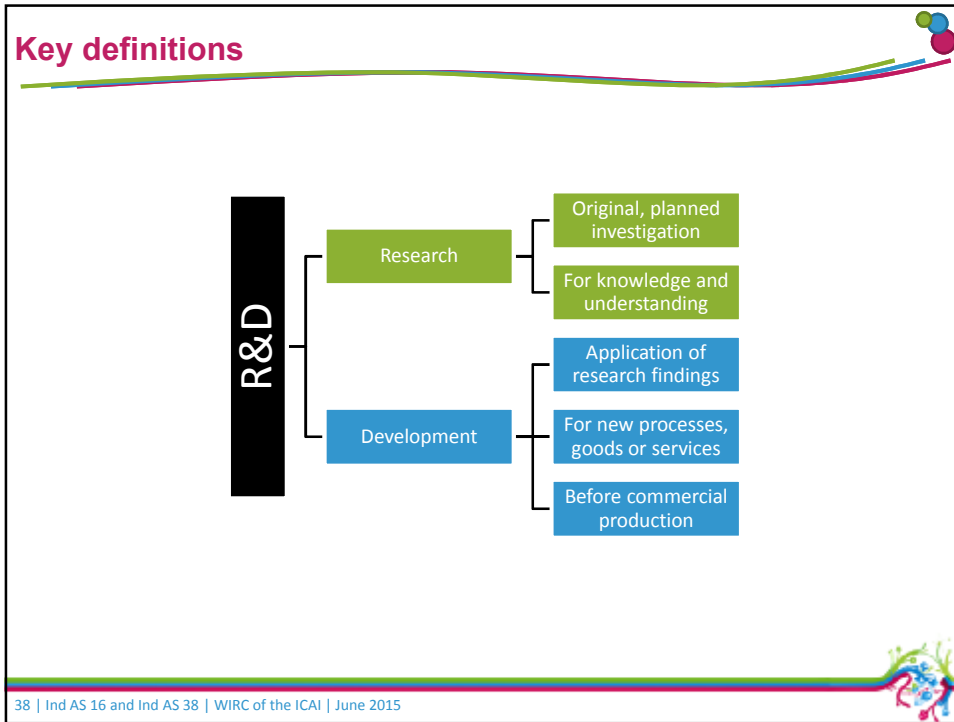












## Recognition and Measurement

Accounting Treatment

- Recognition and measurement
- Recognition of expense
- Measurement after recognition
- Disclosure
- Retirement and Disposals

- For both acquired and internally generated internal assets,
  - Must qualify as an **intangible asset**
  - And meet **recognition criteria**
- Recognition criteria:
  - Future economic **benefits** expected
  - Cost can be **reliably measured**
- Reasonable and supportable **assumptions** / best estimates of underlying economic conditions needed
- Initially measured **at cost**

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## Separate Acquisition

Accounting Treatment

- Separate acquisition
- In business combination
- Disclosure
- Impairment
- Retirements and Disposals

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- AS 26 gives no specific guidance on exclusion of specific items of costs

- **Measurement** considered to be purchase price
  - Purchase **price**, incentives and non-refundable taxes less trade discounts and rebates
  - Put-to-use **direct expenditure**
    - Employee benefits, professional fees, testing expenses
    - Advertising and promotion, training, administration OH, redeployment
  - **Ceases** when asset is capable of operating as intended

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### Acquisition as part of a Business Combination

**Accounting Treatment**

- Cost = **Fair Value** on date of acquisition
- Criteria of **expected benefits** must be met with; considered embedded intangible asset if not recognized separately from Goodwill
- Recognized separately from Goodwill if identifiable/ separable intangible asset not recognized it previously
- Fair value could be derived from market, or **arms length price**, replacement costs.
- Subsequent** expenditure **expensed** if not qualifying as development

AS 26 permits FV recognition only for amalgamations in the nature of purchase

AS 26 does not permit FV recognition of intangible assets acquired from an acquiree company that did not recognize them

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### Acquisition by way of a Government Grant

**Accounting Treatment**

- Intangible asset and grant recognized at Fair Value (Ind AS 20)
- AS 26 requires such grant and asset to be recognized at nominal value or at acquisition cost

Measurement after recognition

Disclosure

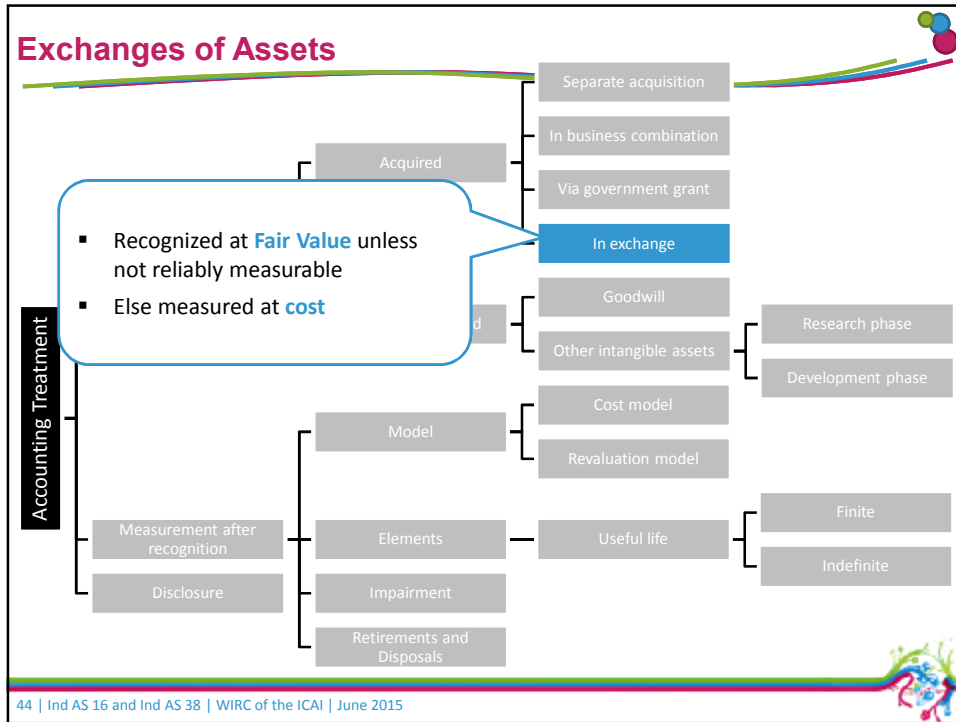
Model

Elements

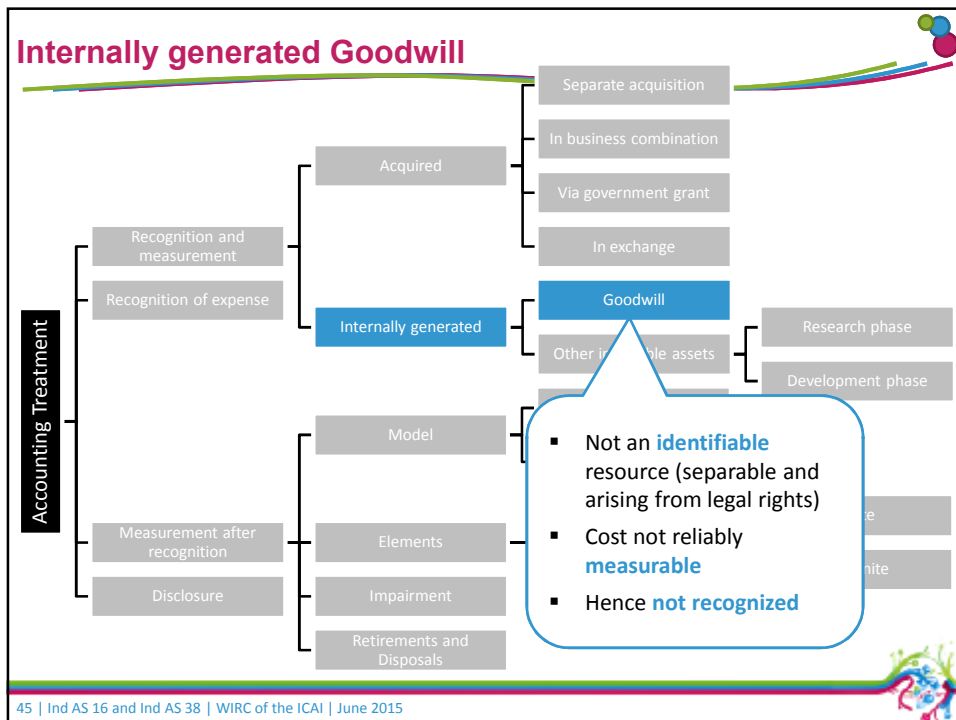
Impairment

Retirements and Disposals

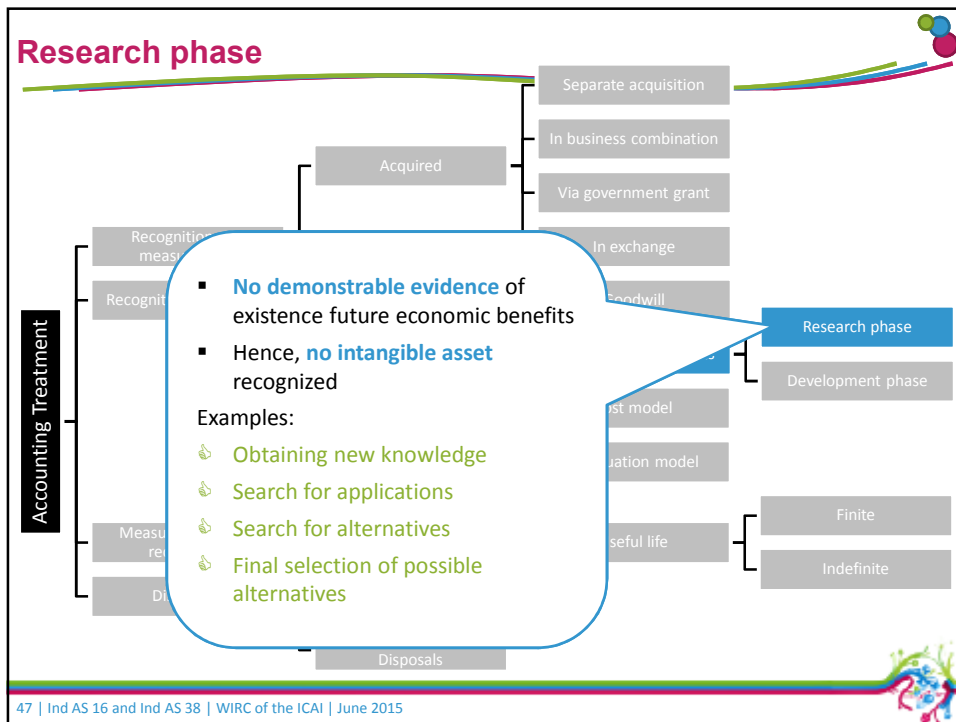
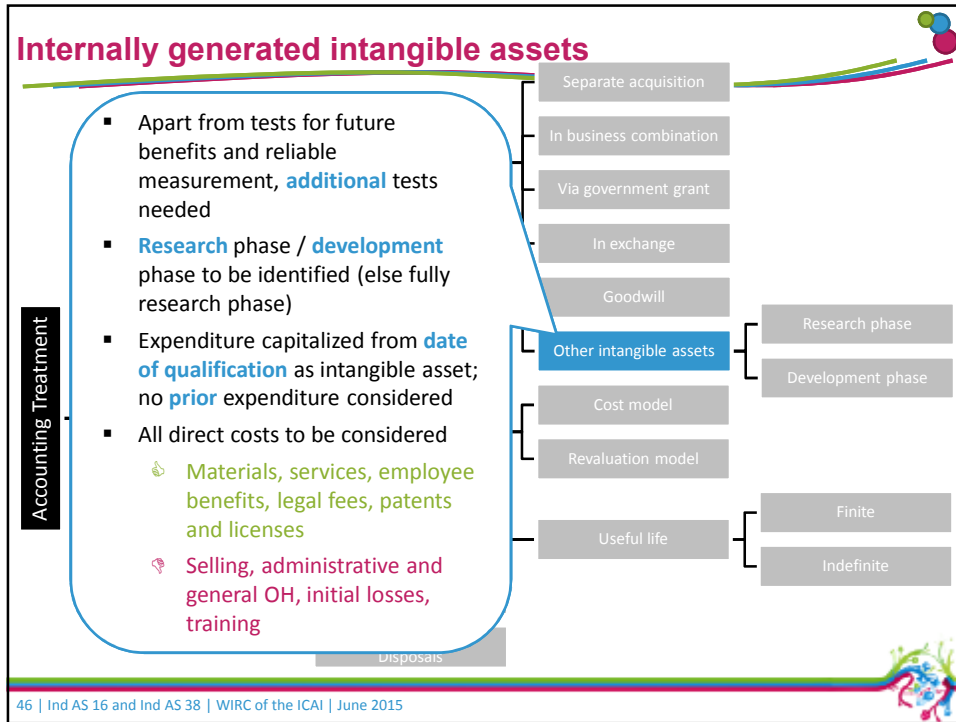
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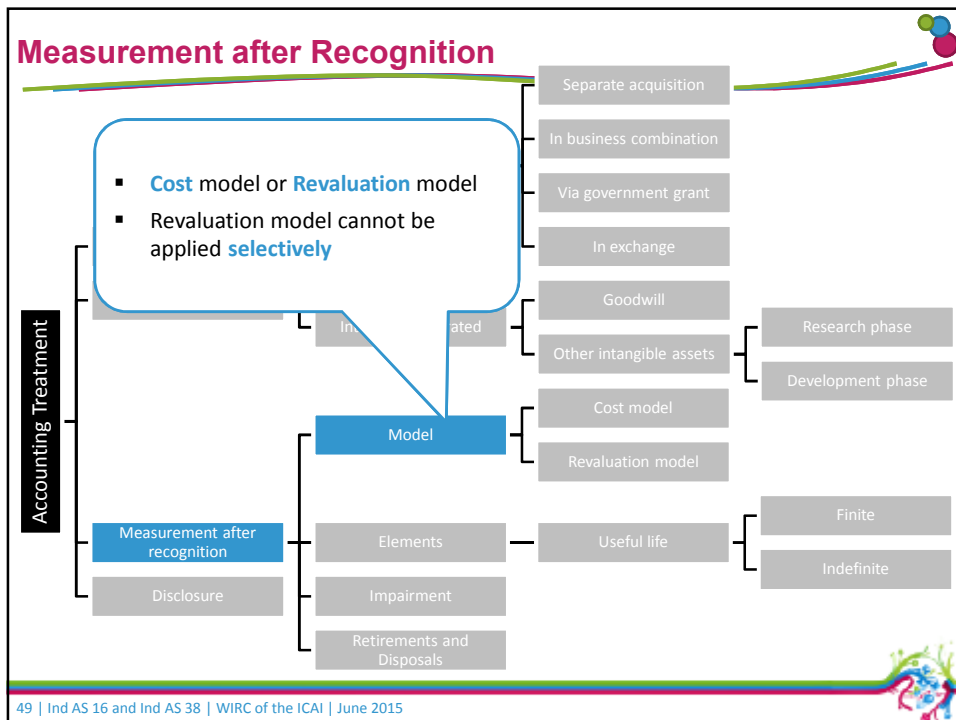
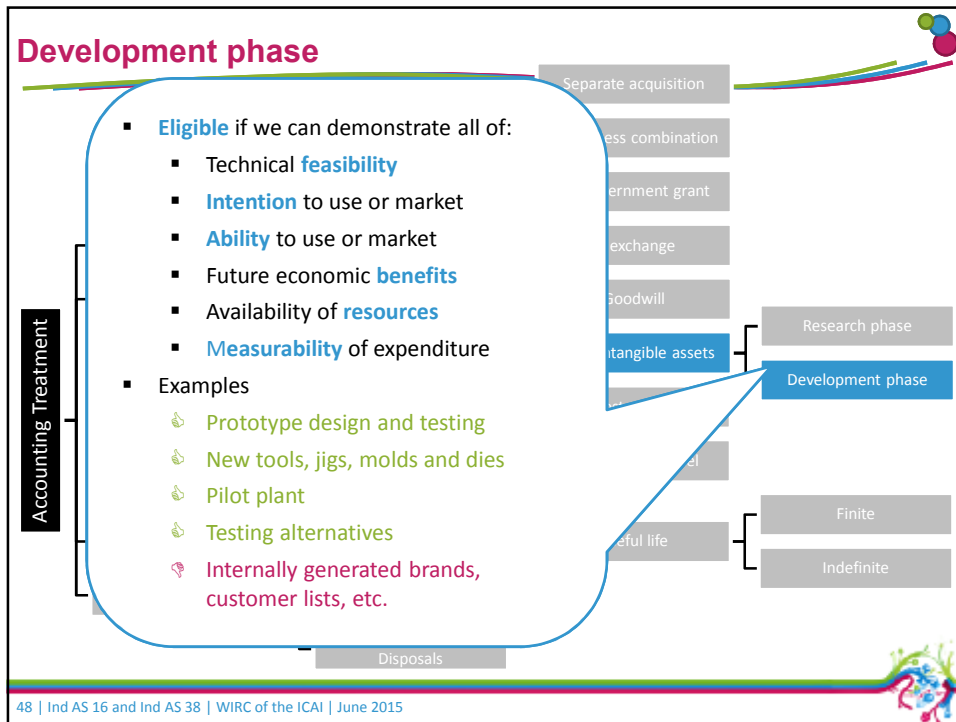
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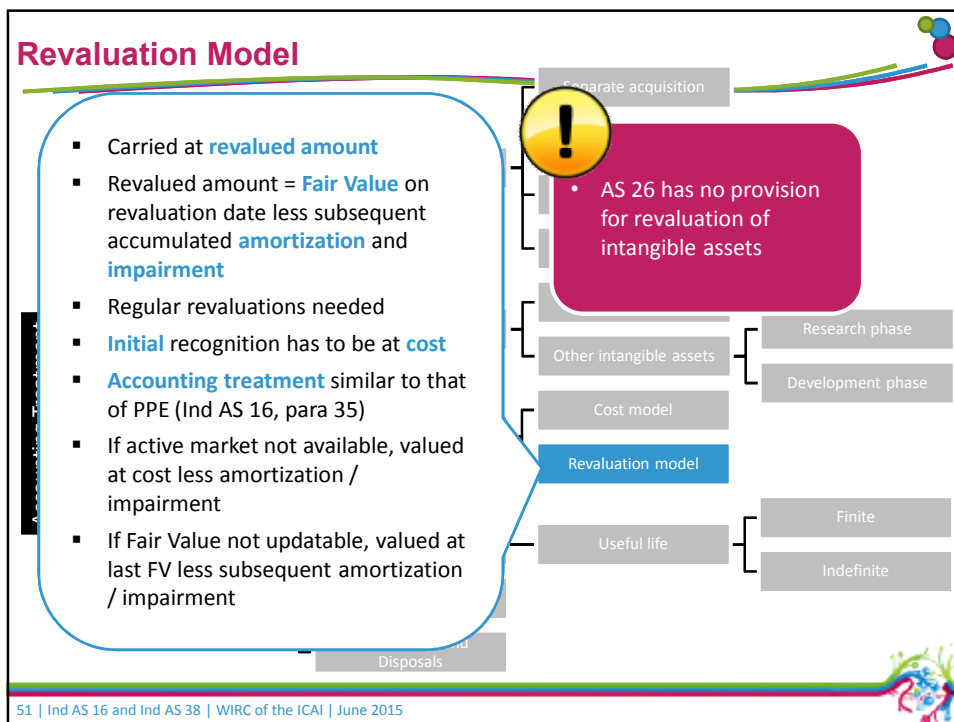
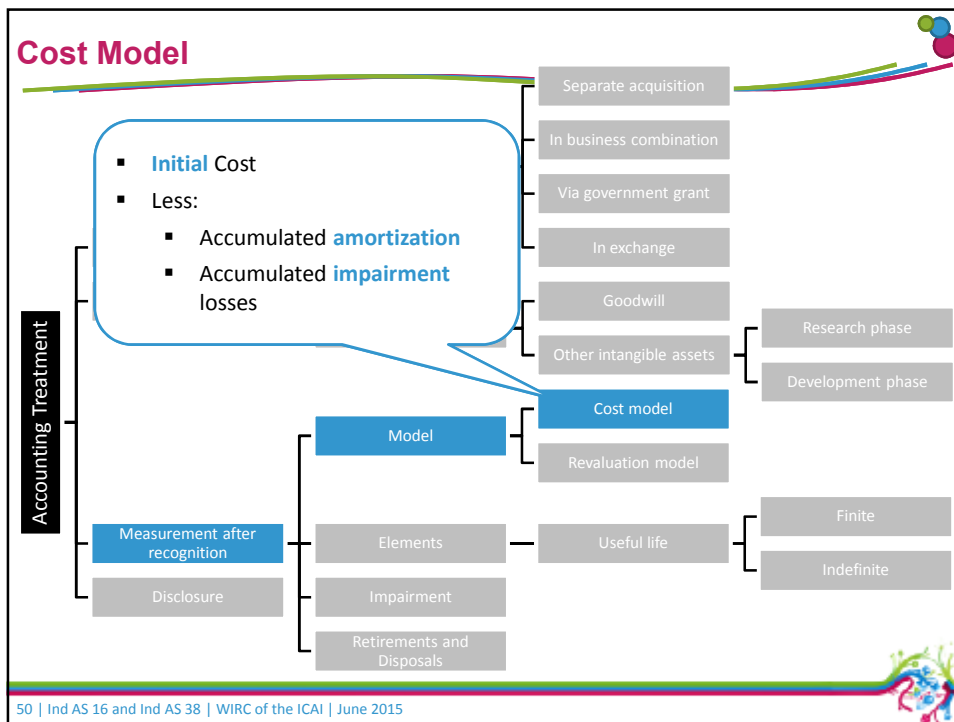


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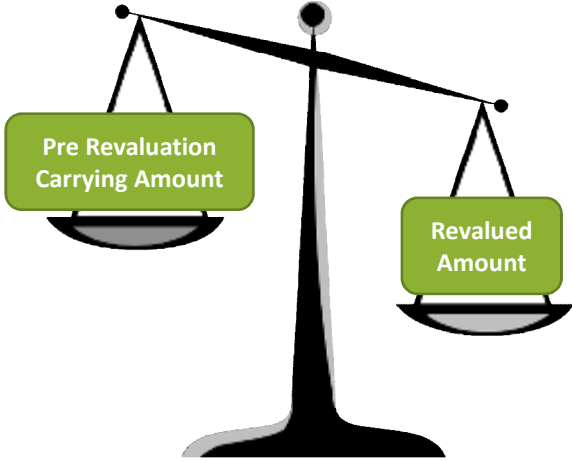








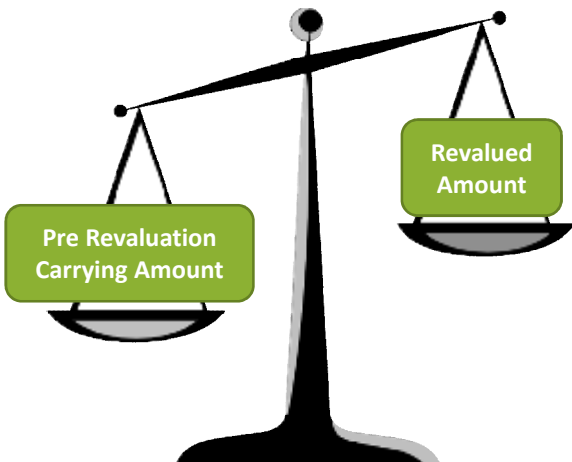
### Treatment of Increase in Carrying Amount on Revaluation



- Recognized in **Other Comprehensive Income**
- Accumulated in **Equity** as **Revaluation Surplus**
- ...but recognized in **P&L** to the extent of **reversal** of previous revaluation decrease of same asset

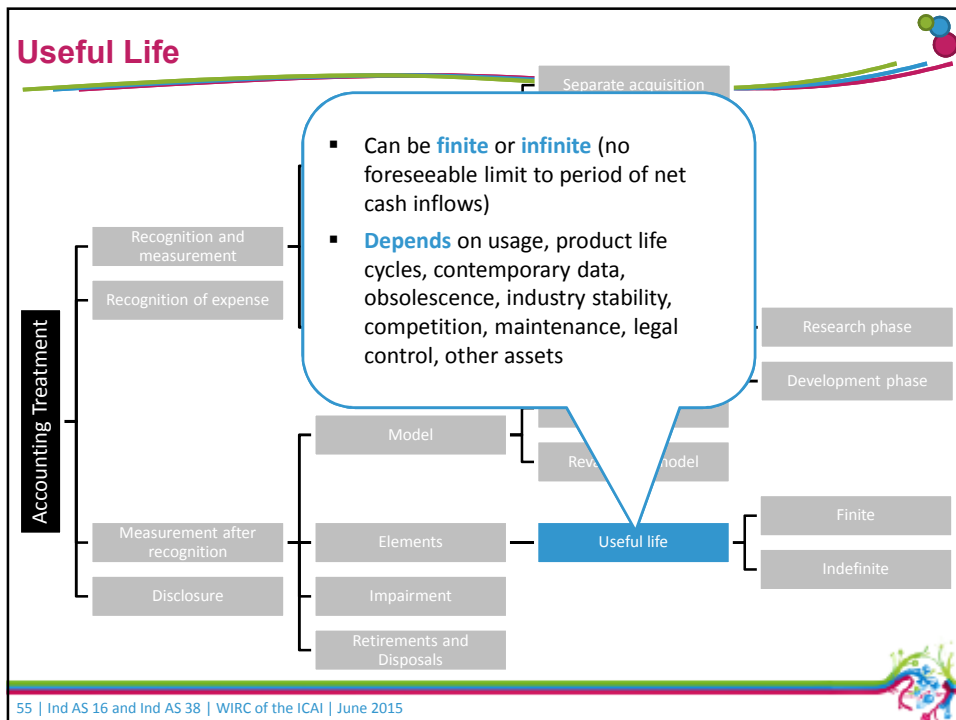
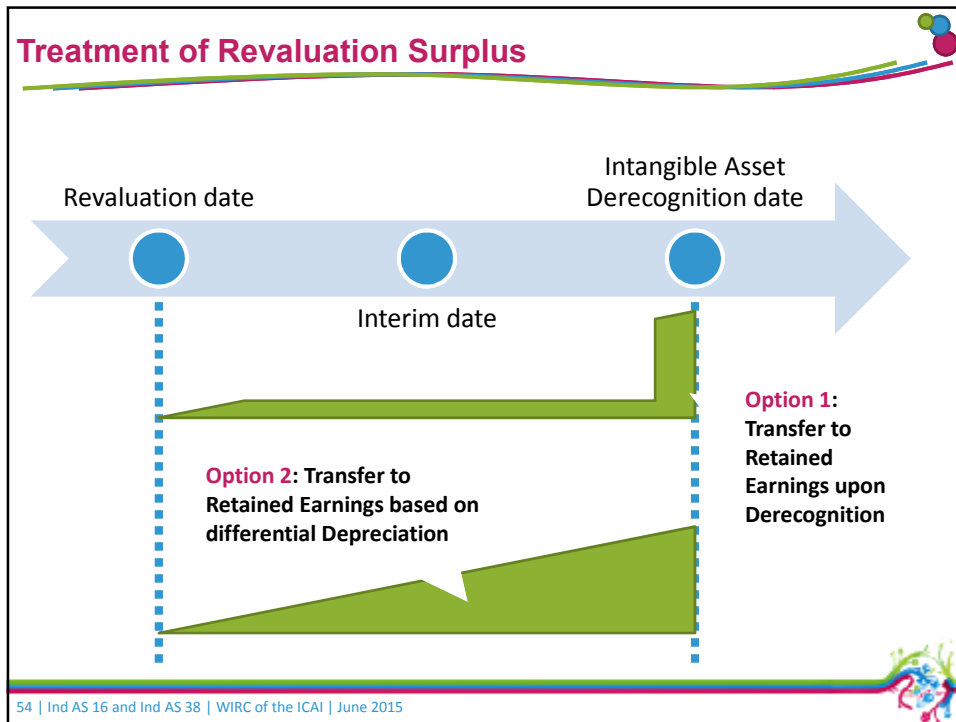
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### Treatment of Decrease in Carrying Amount on Revaluation



- Recognized in **P&L**
- ...but recognized in **Other Comprehensive Income** to the extent of **credit balance** in revaluation surplus of same asset, thus **reducing revaluation surplus** in Equity

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### Finite useful life

Separate acquisition

Accounting Treatment

- Intangible assets with **finite** useful lives to be **amortized** over its length or production units
- Residual value assumed to be **zero** (rebuttable)
- Amortization **begins** when **available for use**
- Amortization **ceases** when **held for sale** (Ind AS 105) or **derecognition**, whichever is earlier
- SLM, WDV, Units of Production methods available as **choices**
- Depreciation method should **reflect consumption pattern** of future economic benefits
- To be applied **consistently**
- Should be **reviewed** annually, changes recognized as **change in accounting estimates** as per Ind AS 8

Measurement after recognition

Disclosure

Elements

Impairment

Retirements and Disposals

Useful life

Finite

Indefinite

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### Indefinite useful life

Separate acquisition

Accounting Treatment

- Intangible assets with **indefinite** useful lives **not to be amortized**
- To be tested for **impairment** as per Ind AS 36
- Impairment tested by comparing carrying amount with recoverable amount **annually** or upon **indications**
- Useful life to be tested for **change to finite life**, changes recognized as **change in accounting estimates** as per Ind AS 8

Recognition and measurement

Recognition of expense

Revaluation

Useful life

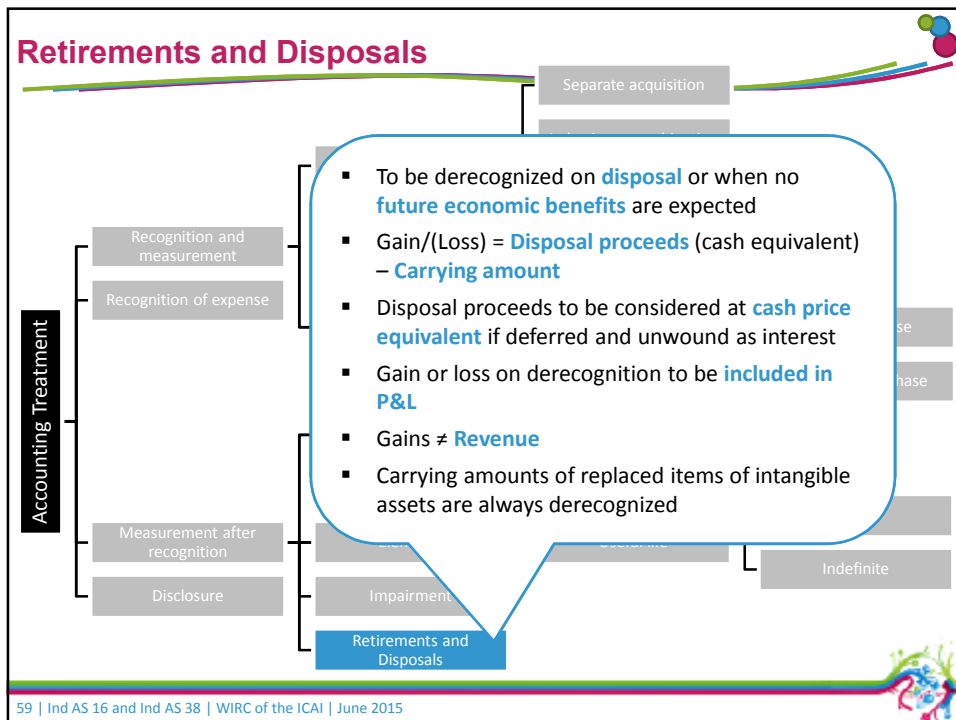
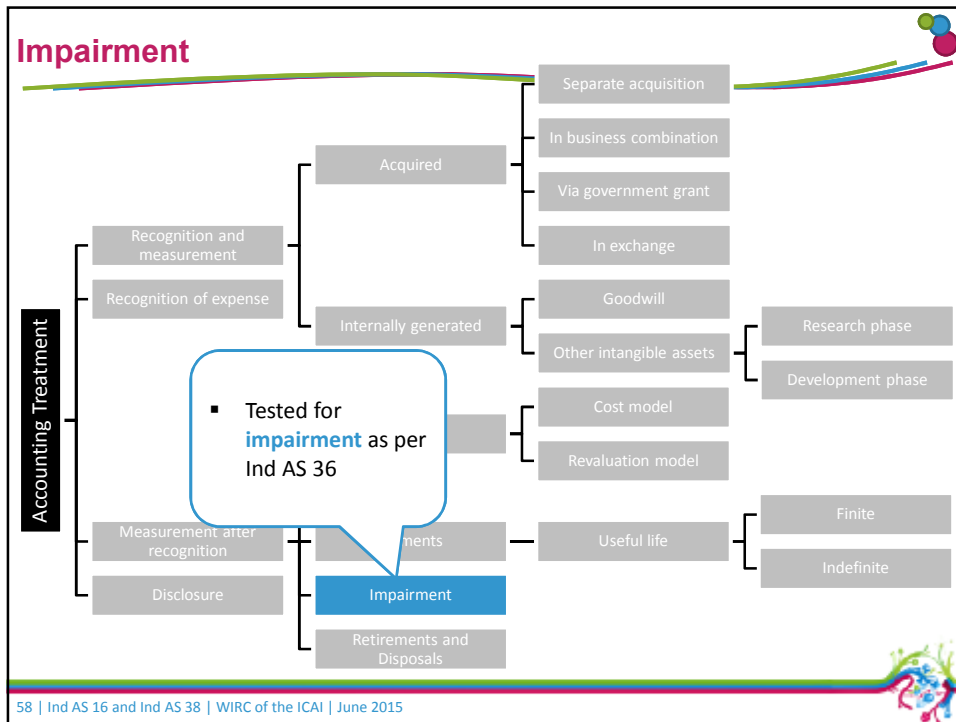
Finite

Indefinite

Retirements and Disposals

AS 26 assumes only finite lives for intangible assets, not more than 10 years (rebuttable)

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## Disclosure

Separate acquisition

Accounting Treatment

- By **class** (brand, software, licenses, copyrights, patents, under development) – including separately for internal and acquired intangible assets
- Useful lives** and amortization rates
- Justification** for indefinite useful life assessment
- Amortization **methods**
- Gross block, accumulated amortization/ impairment, net block at beginning and end**

- P&L references** for amortization/ impairment
- Movements** and reconciliation
- Restrictions** and lien
- Contractual purchase **commitments**
- Details of **revaluation** – effective date, assumptions, FV assessment methods, impact and Revaluation Surplus
- R&D** spend recognized as expense

recognition

movements

Useful life

Indefinite

Disclosure

Impairment

Retirements and Disposals

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THANK YOU FOR YOUR TIME  
AND CONSIDERATION.

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